

GLOBAL ECONOMIC OUTLOOK

FAST WON'T LAST

EDC Economics

Oct. 1, 2020

Insights on the world's key economies
GDP growth, commodity prices, interest rates
and exchange rates.

Canada

EDC



EXECUTIVE SUMMARY

GLOBAL ECONOMIC OUTLOOK: FAST WON'T LAST

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Change is no more evident today than in near-term forecasts. In COVID-19 we're dealing with an event and a response that no living economist has seen before. We're all learning as we go. All the same, whether you believe it or not, economic fundamentals are still in operation.

Pandemic data are preeminent. For the moment, they're the leading indicator of near-term growth. They determined the initial world-wide lockdown that devastated output and brought on unprecedented monetary and fiscal stimulus. Moderation of infections, in turn, initiated the return to work and the subsequent surge in output. Today's big question concerns second-wave infections, and what kind of shutdowns will be required.

A second critical forecast factor is the prior state of the economy. Unlike the global financial crisis, we didn't enter this downturn with a huge overhang of cyclical excess. In fact, it was quite the opposite. A decade of sub-standard growth left us with significant room to grow. Evidence of pent-up demand across OECD nations was abundant. And COVID-19 conditions have only added to the pent-up pressure, with precautionary prudence and a lack of things to spend on spiking bank balances and savings rates. All this suggests fundamental resilience, at the very least, the potential to rebound from the current mess.

This is one of the key reasons for a third factor: the aggressive rebound in current key indicators. Retail sales are back to pre-COVID-19 levels in the United States, the European Union and Canada, among others. Export data is also zooming back to the pre-pandemic mark, hitting the 94% threshold in Canada in July. Stock markets—a key leading indicator—are euphoric, and key commodity prices are doing far better than initially expected. Fuelled by these sources of growth, total production across the economy now seems to be over half-way back. It's a great achievement, but there's still a long way to go.

At this point, it's back to the pandemic. We have countries going back into full lockdown. Others are isolating problem-zones, or imposing regional lockdowns. Put it together, and it looks like the fast start is giving way to a more moderate global growth path.

EDC Economics autumn 2020 *Global Economic Outlook* sees the current aggressive growth paving the way for a 6.6% increase in the world economy in 2021. That's hard to fathom when many are still coming to grips with the 4.3% global decline this year, an unthinkable turn of events from 2019's moderate-to-fair 2.9% performance. Next year's outlook is far from fanciful, though. By the math, 6.6% doesn't get us back to pre-pandemic levels of activity.

EXECUTIVE SUMMARY (continued)

GLOBAL ECONOMIC OUTLOOK: FAST WON'T LAST



Disaggregate these numbers and it's clear that all will not ride the growth wave. The food, advanced technology, telecom, wood products and minerals sectors will greatly outperform oil and gas, aerospace and anything connected with business and personal tourism, and for some time. Countries and individuals tied to these sectors will do likewise.

Ample supplies and uncertain growth are sure to keep the lid on key commodity prices over the near-term. Interest rates are ultra-low and will be for ultra-long. Currencies will experience localized volatility, but in general are expected to see only modest movement over the medium term. The Canadian dollar is expected to stay in the US74-76-cent range this year and next.

The bottom line?

We're a long way from COVID-19's last chapter—the drama is still unfolding, although the initial growth rebound has been very encouraging. In spite of this, don't expect fast to last: We're already seeing a growth moderation that will test our mettle, and future containment of infections is far from guaranteed.

Resumption of the Northern Hemisphere's school season is a key test of the system, and we'll be watching events closely. For now, we take comfort in the economy's current resilience, potent stimulus and pent-up spending. If containment goes well, the economy still has key sources of firepower.

A handwritten signature in black ink, featuring a large, stylized 'R' with a horizontal line through it and a small cross-like mark below the main stroke.

KEY ASSUMPTIONS

Given rapidly changing global events, there's a higher-than-usual degree of uncertainty around this forecast, which incorporates information available as of Sept. 3, 2020.

COVID-19

The base case forecast assumes that, with continued social distancing measures in place, COVID-19 outbreaks will be relatively contained in most systemically-important economies over the medium-term. This doesn't necessarily require an effective vaccine or treatment to be made widely available in the near-term. We simply assume that containment measures will remain in place from most governments, and they'll be generally followed. Furthermore, government responses to any future waves of the virus are expected to be more decentralized than the economy-wide "lockdowns" in the first half of 2020, and should therefore result in less economic disruptions than have already occurred.

U.S. election—November 2020

The forecast for the U.S. economy is based on long-term fundamentals and policies currently in place. Any updated policies coming from the presidential election, to be held Nov. 3, 2020, will be incorporated only after enacting legislation is passed.

Financial conditions

Central banks around the world are expected to continue to provide extraordinary liquidity to maintain market functioning and overall financial stability. The base case forecast doesn't include any systemic financial crises resulting from COVID-19 pandemic. However, the outlook doesn't rule out the potential for localized debt defaults in some sectors and amongst some emerging markets during the later stages of the recovery as debt overhangs are worked out.

U.S.-China trade dispute

The forecast assumes the Phase One Trade agreement signed in January 2020 remains in place over the near-term.

Brexit

The forecast assumes the United Kingdom and European Union eventually agree on an orderly transition, based upon a comprehensive trade agreement, which includes essentially "free trade" on most goods and services traded between the EU and U.K. However, COVID-19 will likely result in the current "status quo" persisting into the medium-term.

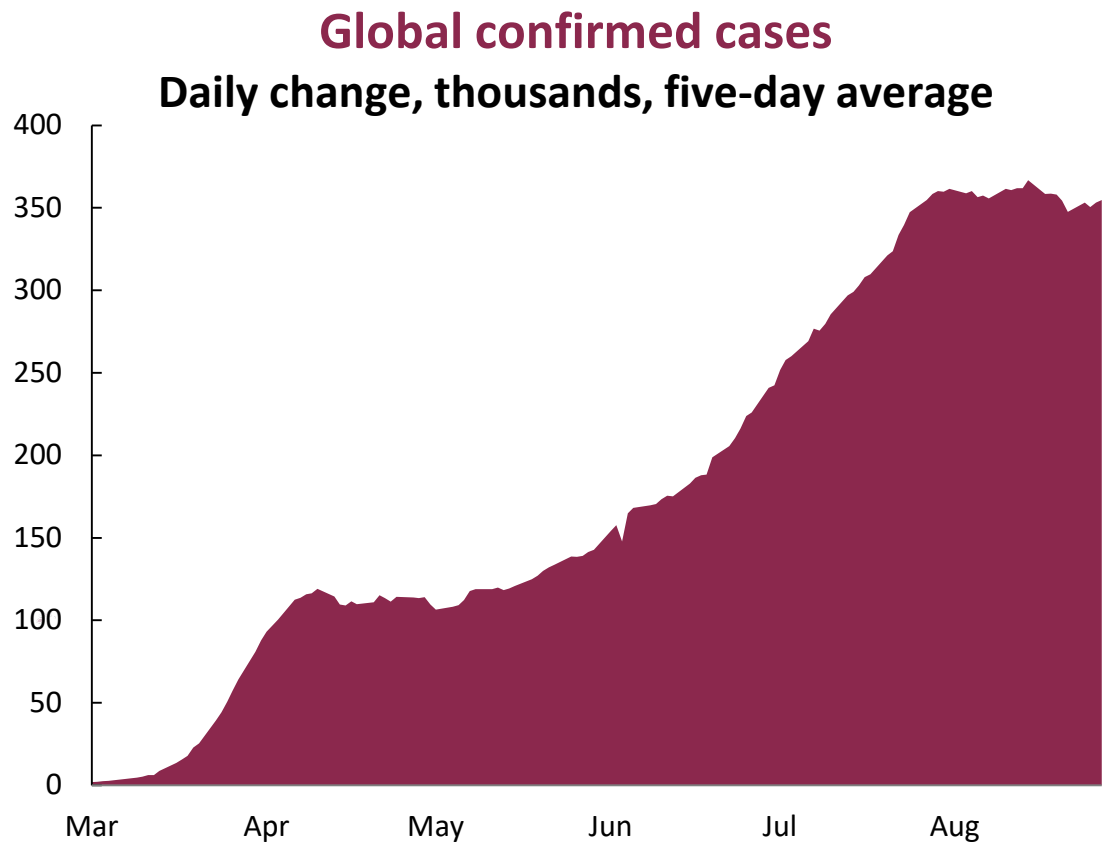
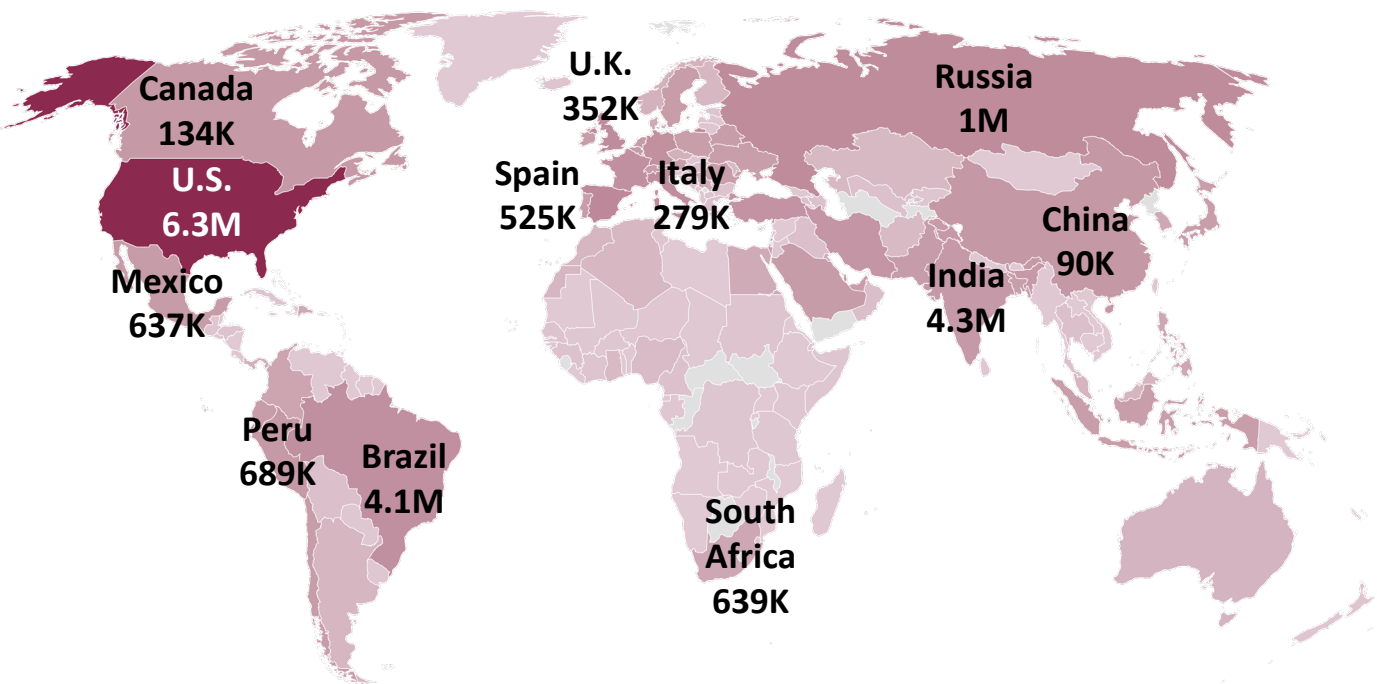
RECENT DEVELOPMENTS



CONFIRMED COVID-19 CASES

As of Sept. 3, 2020

26 million
World total

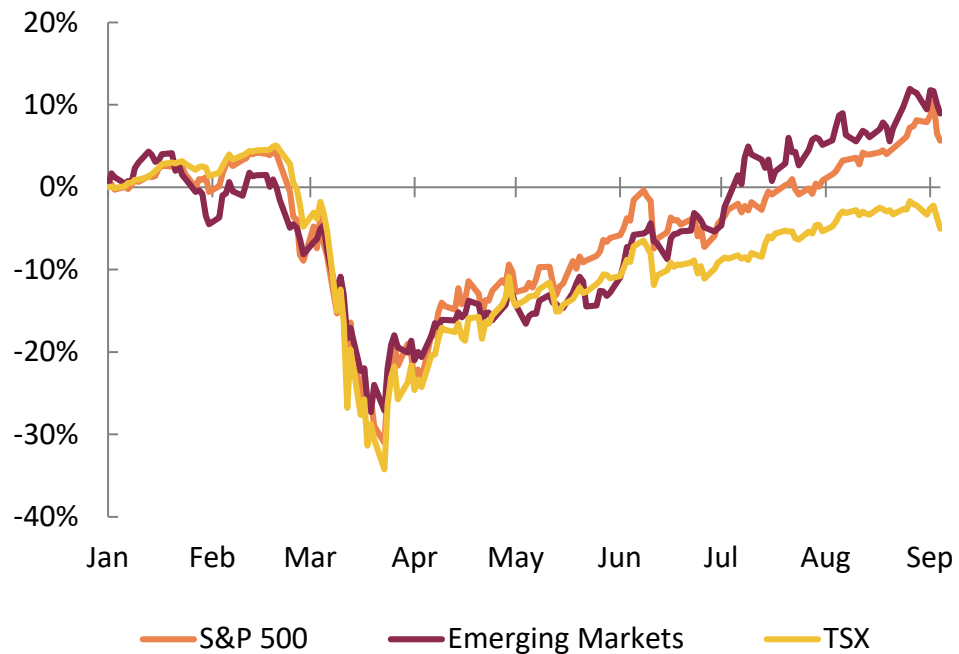


FINANCIAL MARKETS

Equity markets have largely recovered or surpassed their pre-COVID-19 levels—although with large variation across sectors; while bond spreads are slowly improving, but remain somewhat elevated.

Global stock markets

% change since Jan. 1



Global debt markets

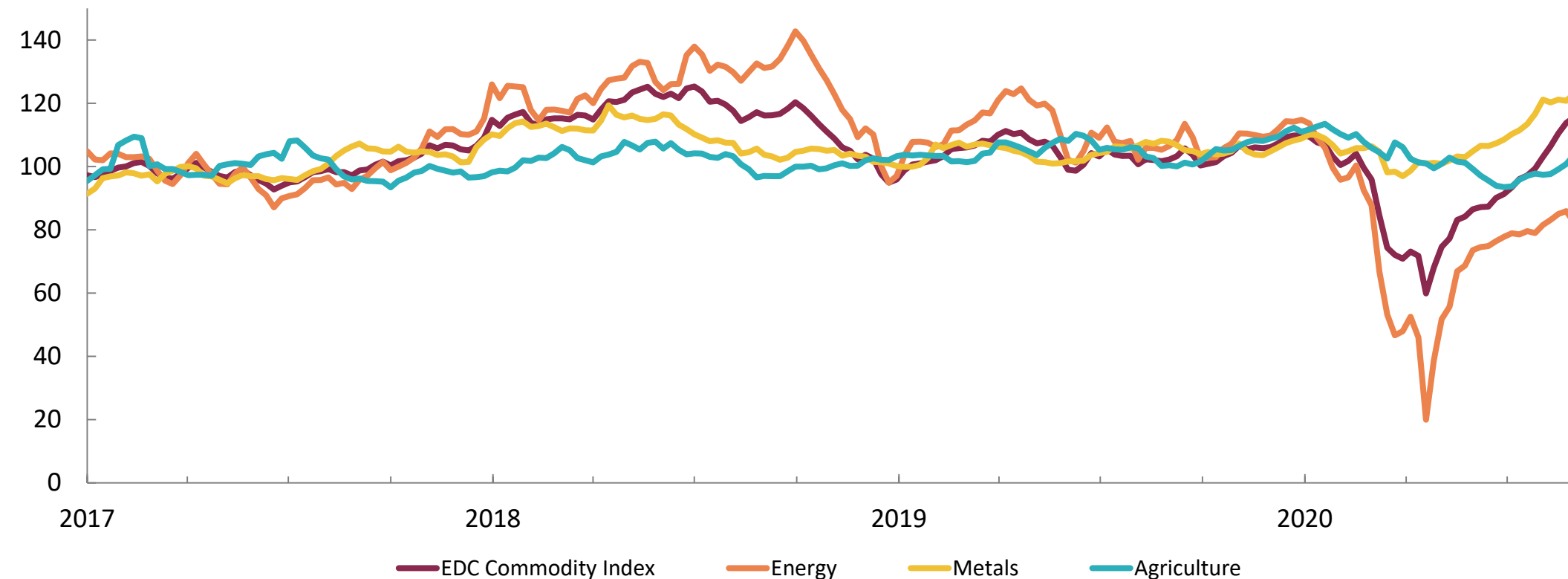


COMMODITY PRICES

Commodity prices have generally rebounded. Metals prices have benefitted from global uncertainty and supply disruptions, while weak demand continues to weigh down energy prices.

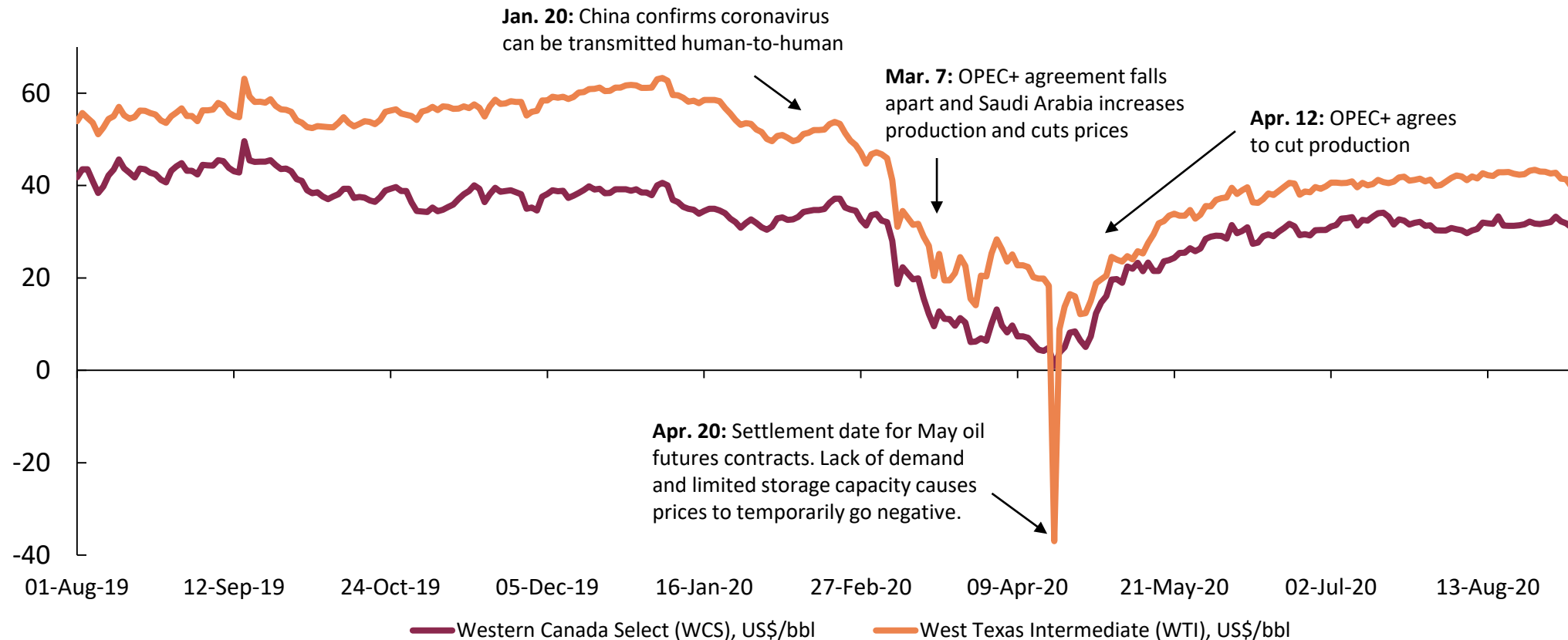
EDC commodity indices

2017 = 100



OIL PRICES

Oil prices collapsed amid depressed demand and a temporary price war that increased supply, but prices have strengthened and stabilized in recent months.

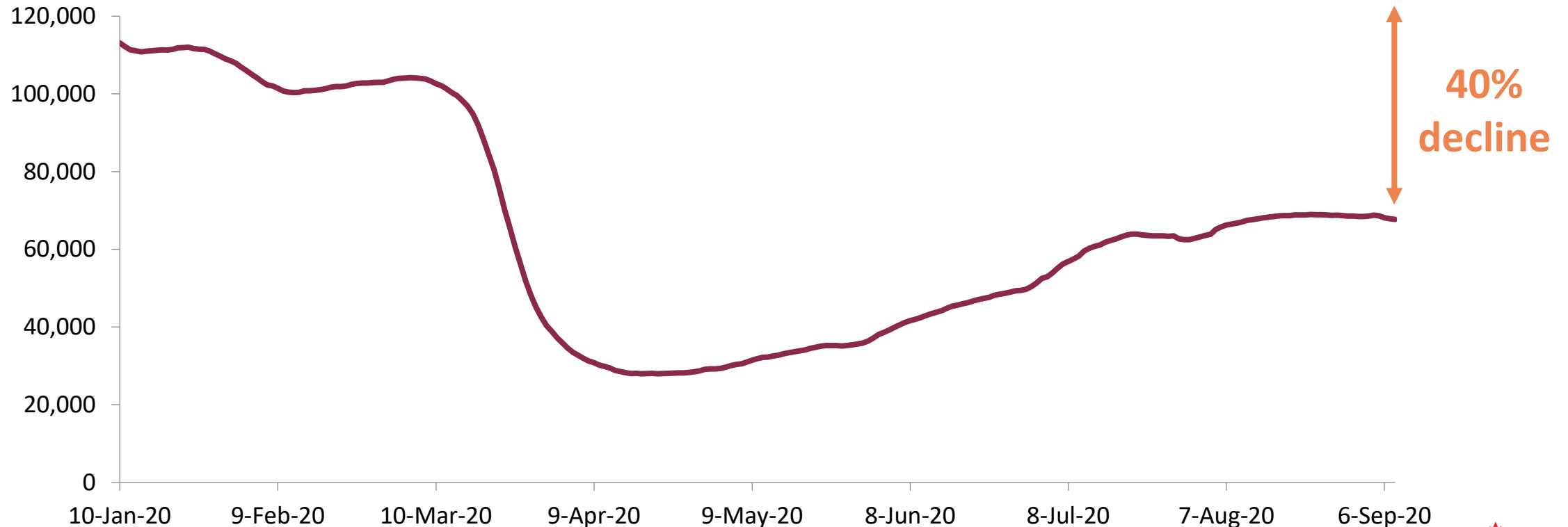


INTERNATIONAL AIR TRAVEL

Travel restrictions grounded most international air travel, which has grown slowly to remain about 40% below pre-COVID-19 levels, up noticeably from the trough of -75% in April.

Daily active commercial flights

weekly global average

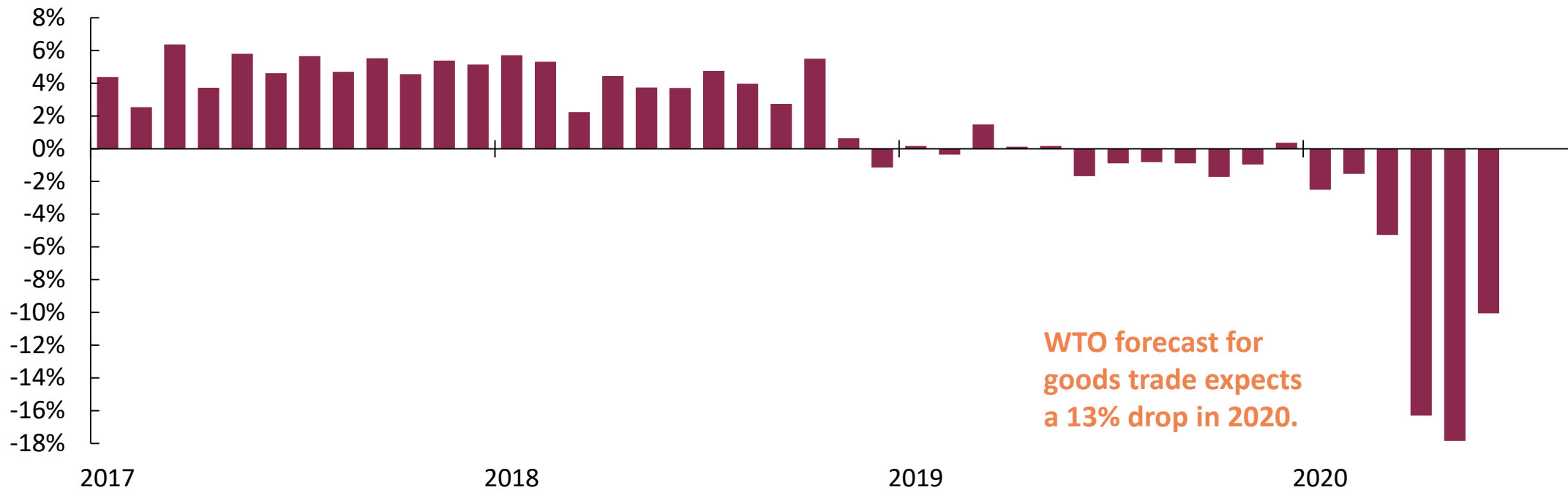


GLOBAL MERCHANDISE TRADE

While global merchandise trade was hit hard during shutdowns in March through May, early indications suggest that a rebound began in June.

Global merchandise trade volumes

annual % change



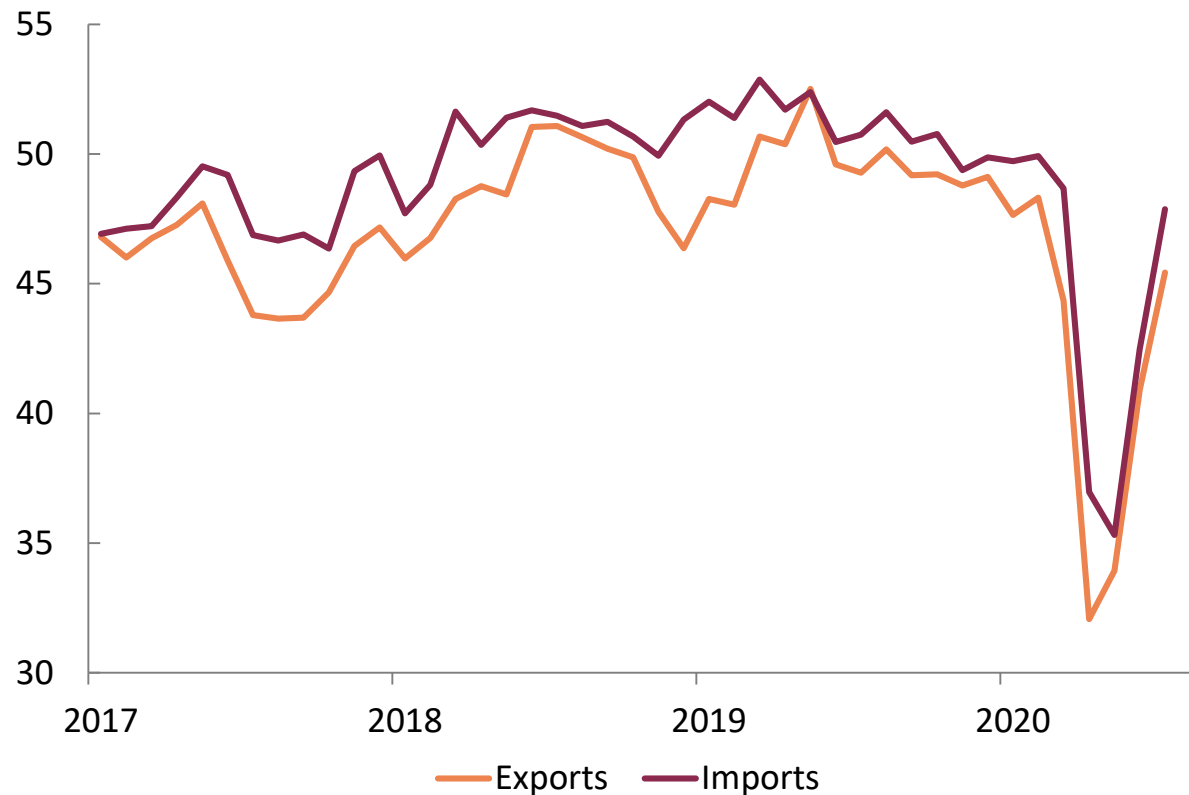
WTO forecast for goods trade expects a 13% drop in 2020.

CANADIAN TRADE

Canadian goods trade rebounded quickly with a V-shape driven by restarting autos plants, but travel and transportation services has suffered an L-shaped setback.

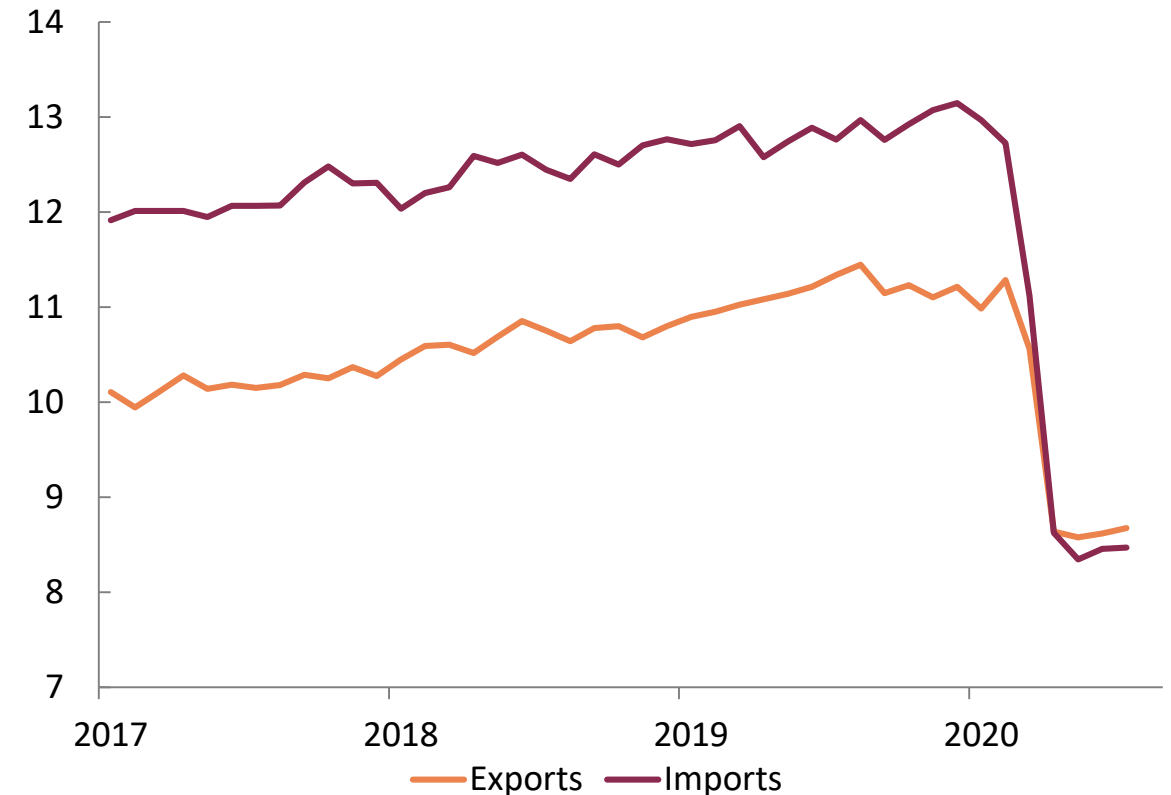
Merchandise trade

Billions of dollars



Services trade

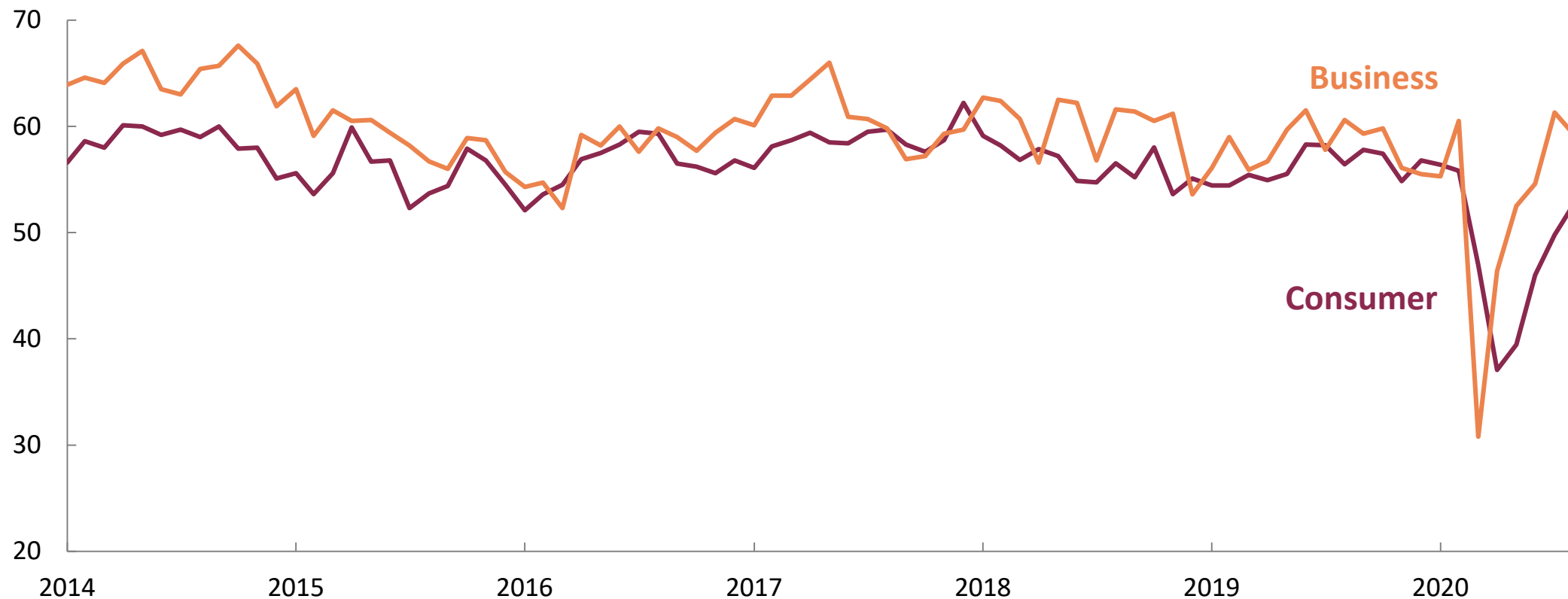
Billions of dollars



CONFIDENCE

Canadian confidence for businesses and consumers has improved significantly in recent months.

Business and consumer confidence indices (monthly)



Notes: 50+ = positive consumer sentiment. Consumer sentiment is weekly, aggregated monthly using last value. June value corresponds to the first week of June.

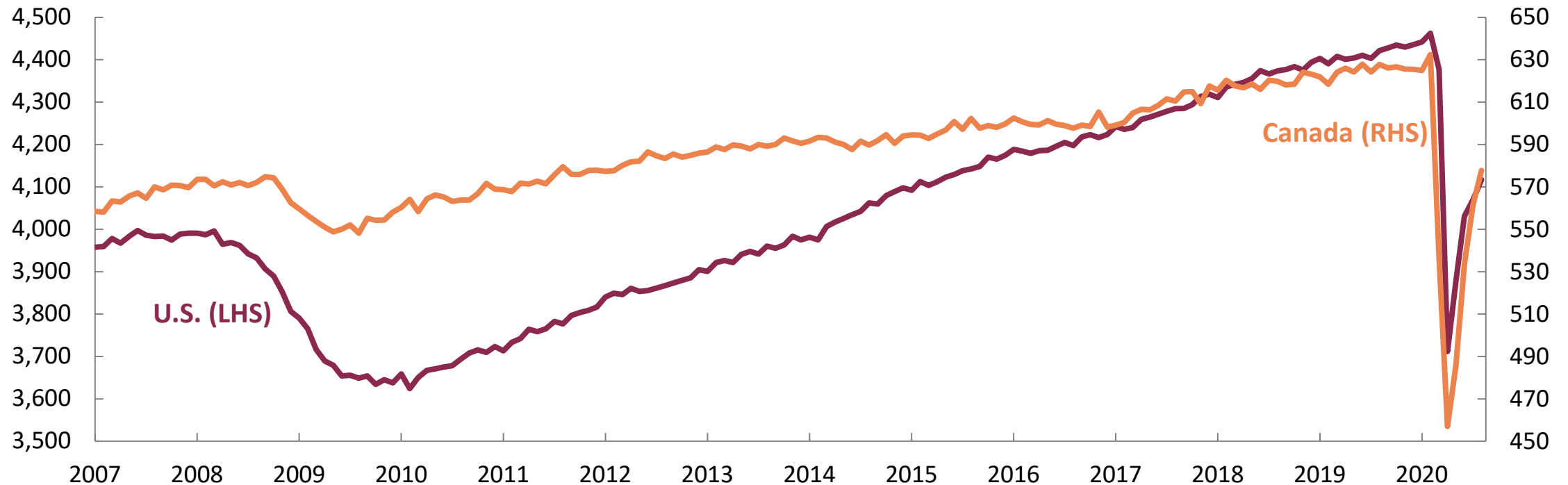
Sources: Nanos Canadian consumer sentiment index, CFIB business barometer

LABOUR MARKET

During lockdowns in March and April, the total hours worked fell by historic amounts in the U.S. and Canada. However, as containment measures eased in May, there have been stronger-than-expected rebounds so far.

Total weekly hours worked

Millions, monthly

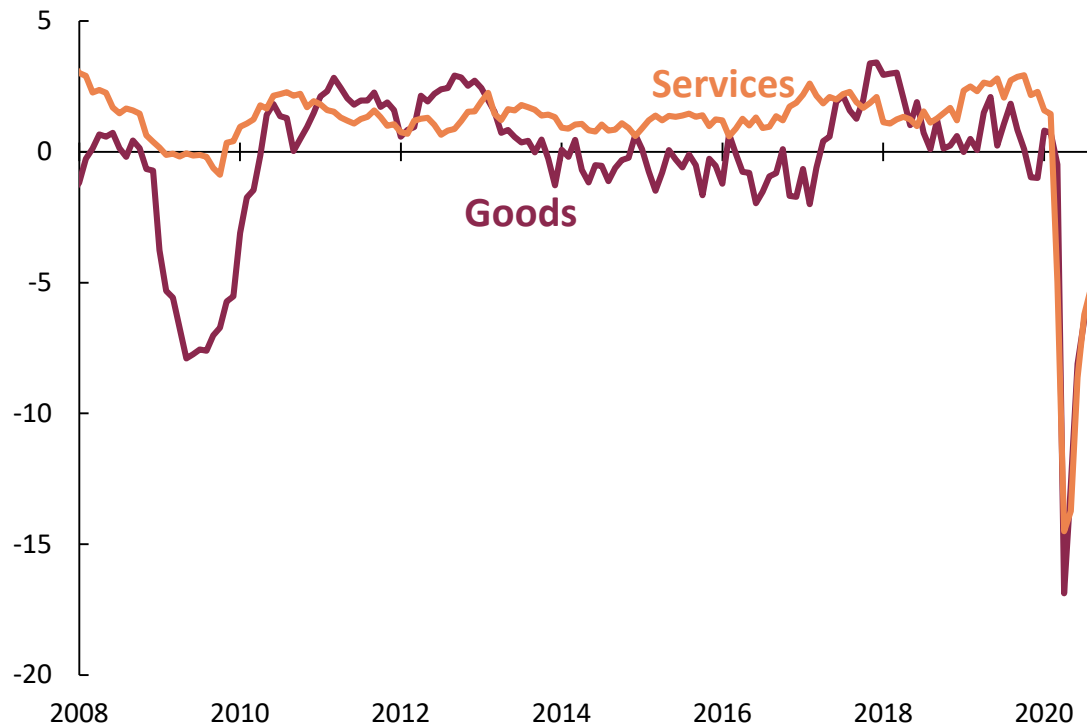


LABOUR MARKETS CONTINUED

Services sector employment, which held up reasonably well in past Canadian recessions, has been hit particularly hard, in areas such as restaurants, retail and recreation.

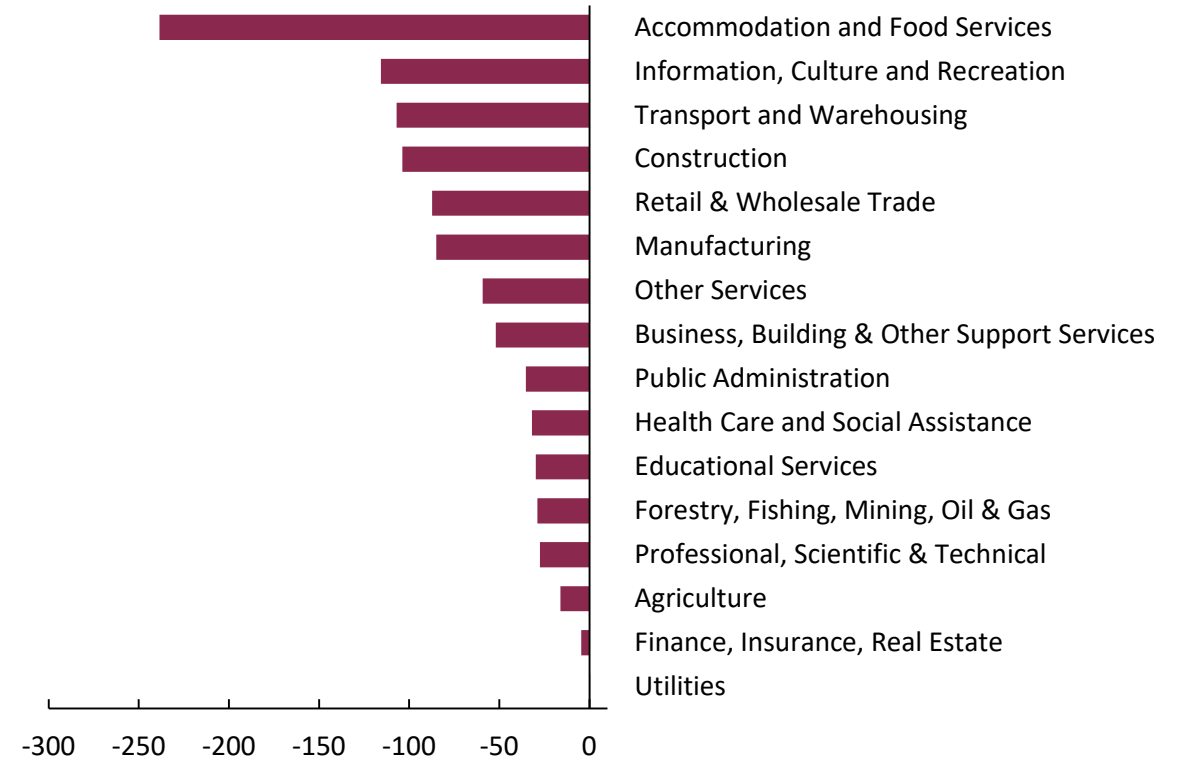
Goods and services employment

year-over-year % change



Employment changes, by sector

August 2019 to August 2020, Thousands

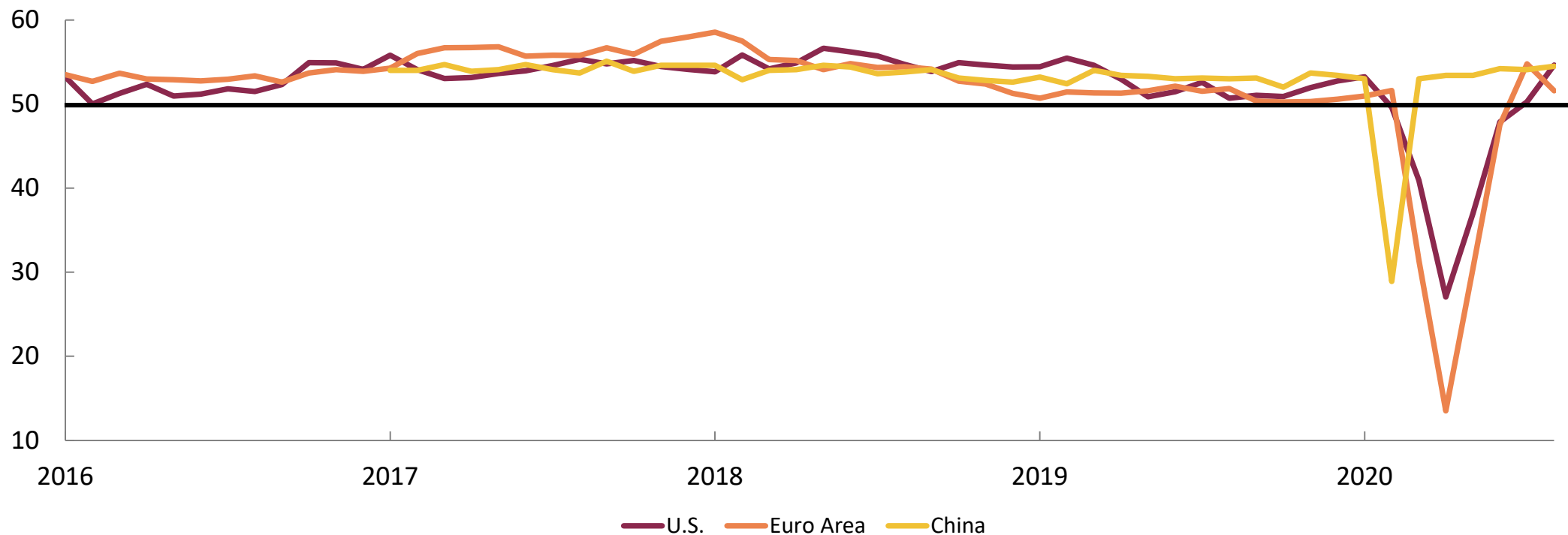


PURCHASING MANAGERS' INDICES

Orders fell dramatically as COVID-19 began to spread at the start of this year, but have since moved back into growth territory, first in China and then in Europe and North America.

Purchasing managers' indices

50+ = expansion



UNPRECEDENTED GLOBAL POLICY RESPONSE

To address COVID-19, rapid central bank interest rate cuts and various large-scale asset purchase programs were followed by massive expansions in direct support for households and businesses in order to maintain liquidity.

Monetary policy

U.S. Federal Reserve

150 bps rate cuts to effective lower bound (ELB) of 0.0-0.25%

Bank of Canada

150 bps rate cuts to ELB of 0.25%

European Central Bank

Operating at ELB of -0.5%

Bank of England

65 bps rate cuts to ELB at 0.1%

Bank of Japan

Already operating at ELB at -0.1%

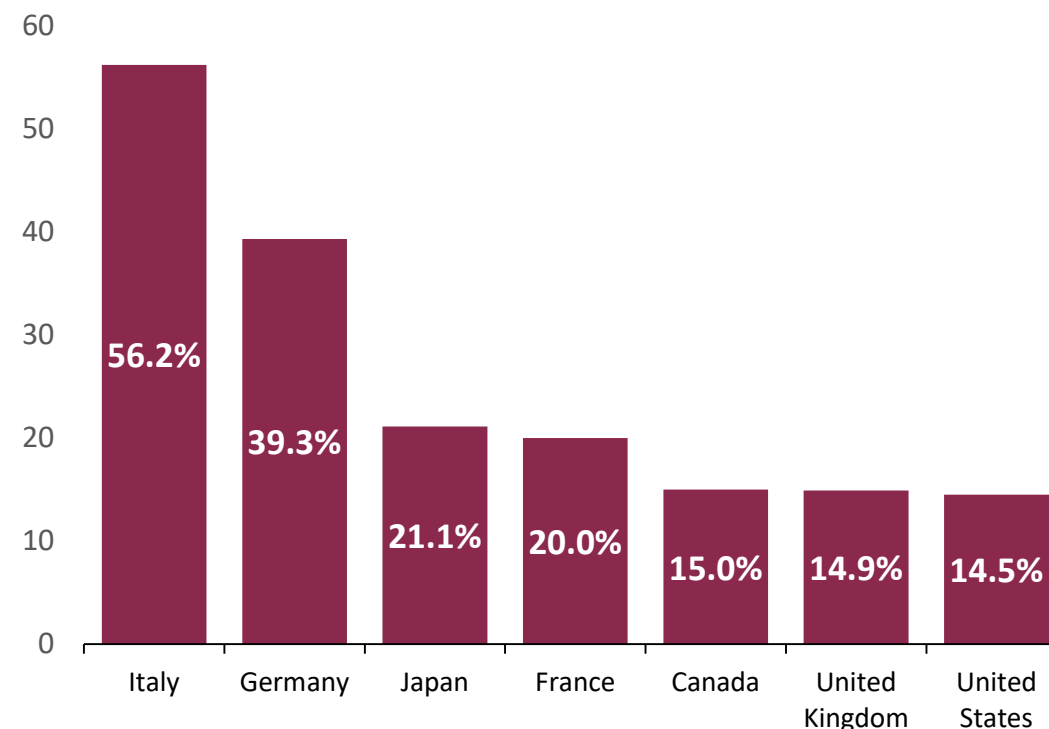
People's Bank of China

Various term lending rates cut to ease financial conditions

Central bank asset purchases have grown rapidly, and in G7 countries has been more than three times larger than the 2008-2009 global financial crisis.

G7 Fiscal Policy Responses to COVID-19

% of GDP, US\$ PPP

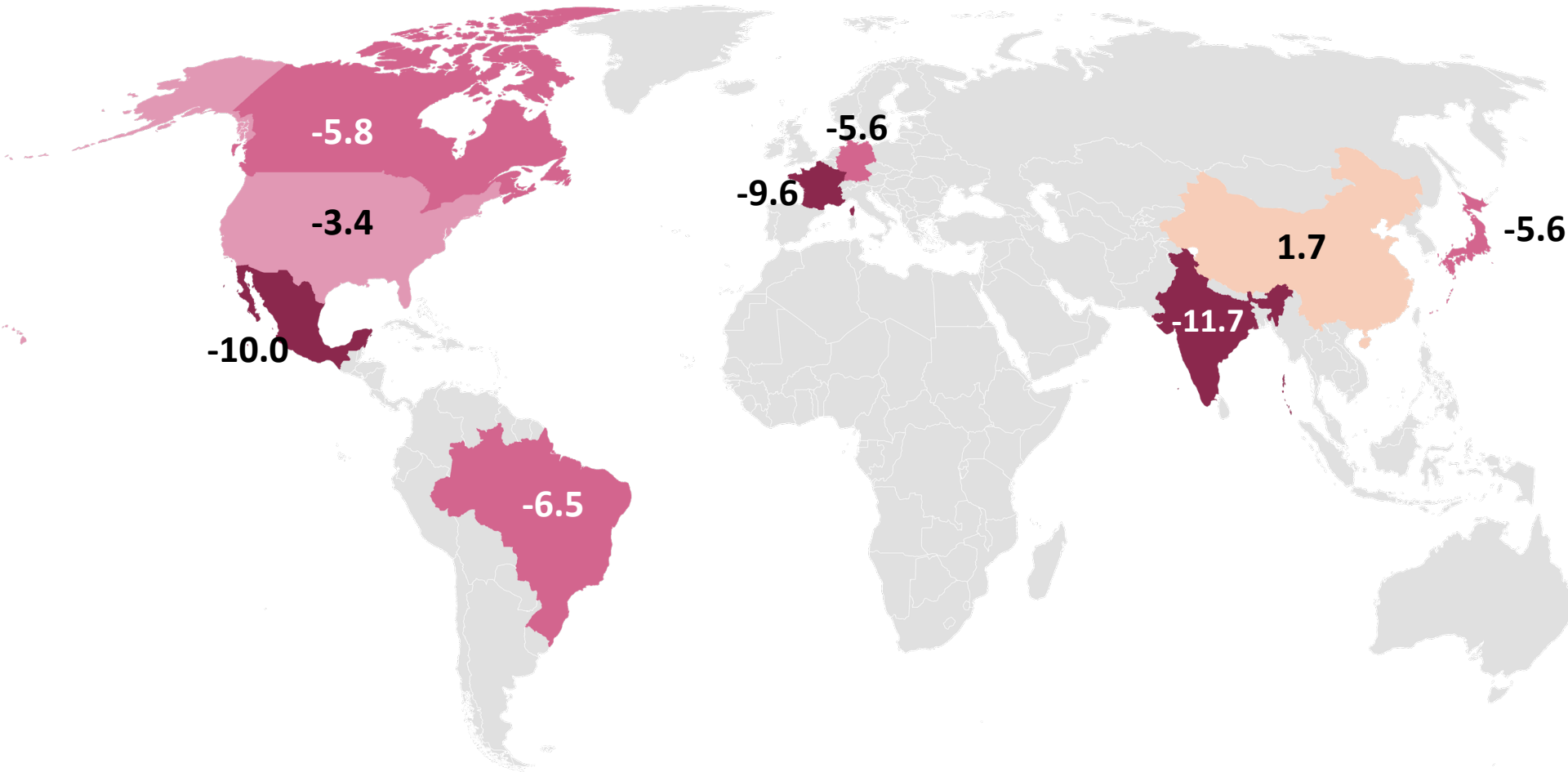


GLOBAL ECONOMIC OUTLOOK



2020 GROWTH OUTLOOK

Real GDP growth, %



-4.3%

World

-5.5%

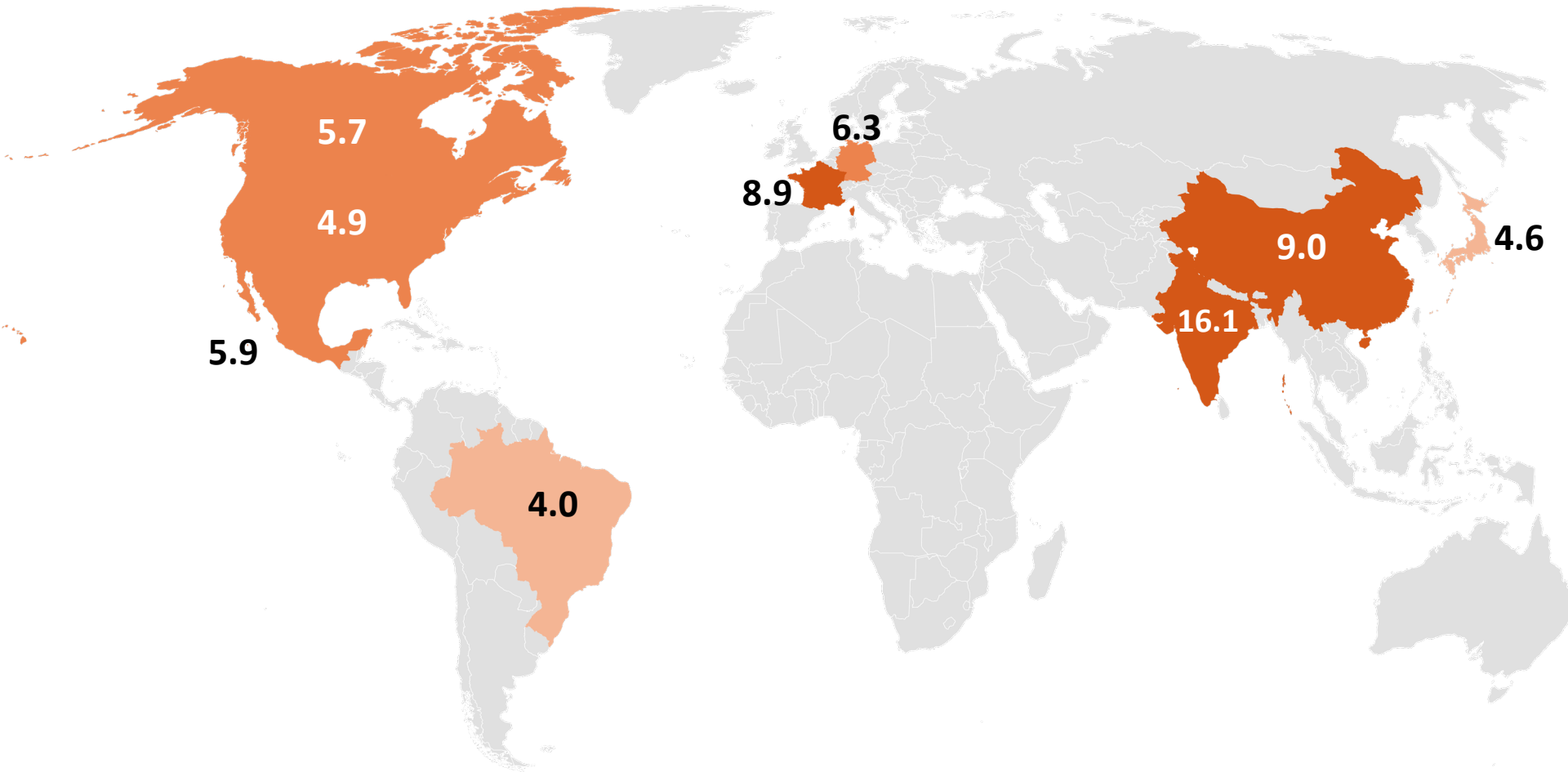
Developed

-3.6%

Emerging

2021 GROWTH OUTLOOK

Real GDP growth, %



6.6%

World

5.7%

Developed

7.0%

Emerging

REAL GDP GROWTH

Global Economic Outlook (Annual % change)	2019	2020*	2021*
Developed countries	1.7	-5.5	5.7
Canada	1.7	-5.8	5.7
United States	2.2	-3.4	4.9
Eurozone	1.3	-7.5	7.0
Germany	0.6	-5.6	6.3
France	1.5	-9.6	8.9
Japan	0.7	-5.6	4.6
Emerging countries	3.7	-3.6	7.0
China	6.1	1.7	9.0
India	3.7	-11.7	16.1
Brazil	1.2	-6.5	4.0
Mexico	-0.3	-10.0	5.9
Total World	2.9	-4.3	6.6

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, October 2020

CHANGES FROM PREVIOUS FORECAST

Global Economic Outlook Real GDP Growth (percentage point change)	2020*	2021*
Developed countries	-0.1	-0.4
Canada	3.2	-1.5
United States	1.7	-2.0
Eurozone	-1.3	0.4
Germany	-0.7	0.4
France	-1.4	0.6
Japan	-1.5	0.5
Emerging countries	0.0	-0.3
China	3.3	-1.0
India	-8.1	5.0
Brazil	0.6	-0.2
Mexico	-2.1	1.1
Total World	0.0	-0.3

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, October 2020 relative to June 2020.

CURRENCIES AND INTEREST RATES

Global Economic Outlook		2019	2020*	2021*
Currency	Exchange Rate			
U.S. dollar	USD per CAD	0.75	0.74	0.76
Euro	CAD per EUR	1.49	1.52	1.56
Euro	USD per EUR	1.12	1.13	1.18
Interest Rates, annual average				
Bank of Canada, <i>Overnight Target Rate</i>		1.75	0.56	0.25
U.S. Federal Reserve, <i>Fed Funds Target Rate (Upper limit)</i>		2.14	0.39	0.10
European Central Bank, <i>Policy Interest Rate</i>		0.00	0.00	0.00

Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, October 2020

COMMODITY PRICES

Global Economic Outlook	2019	2020*	2021*
Brent Crude Spot , <i>USD / bbl</i>	64.36	42.80	43.95
West Texas Intermediate , <i>USD / bbl</i>	56.99	38.65	41.13
Western Canada Select , <i>USD / bbl</i>	43.30	27.76	31.76
Natural Gas , <i>USD / MMBtu</i>	2.55	1.84	2.12
Gold , <i>USD / troy ounce</i>	1,392	1,806	1,920
Copper , <i>USD / tonne</i>	6,002	5,924	5,989

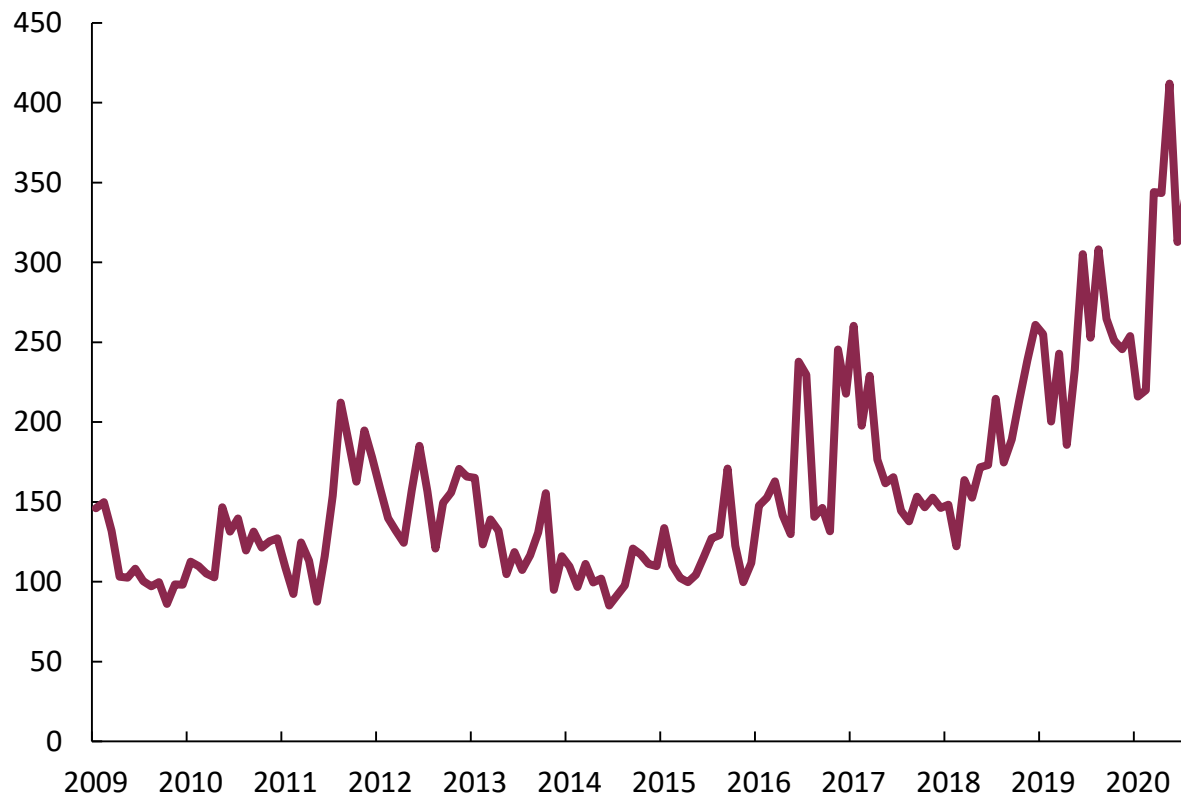
Note: * denotes the forecast period.

Source: EDC Global Economic Outlook, October 2020

UNCERTAINTY AND RISKS

Economic Policy Uncertainty Index

Mean = 100



Measures of global economic uncertainty have started to fall back from all-time high reached in May 2020.

- There still remains an exceptionally high degree of uncertainty around this forecast, due to the severity and spread of the pandemic, its interdependence on containment efforts, as well as the scale and efficacy of unprecedented policy responses.
- This report represents EDC's base case economic forecast, as of Sept. 3, 2020, and is based on assumptions described above. There are significant risks to this base case, both to the upside and the downside.

DISCLOSURE

Ce document est également disponible en français.

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